# THE ONTARIO INVESTMENT FUND

*A Discussion Paper*

**Ministry of Treasury and Economics**
**April 1992**

General enquiries should be directed to:

Ministry of Treasury and Economics
Communications Branch, Room 519
Toronto, Ontario M7A 1Y7
(416) 325-0333

Copies are available free from:
Publications Ontario Bookstore
880 Bay Street, Toronto.

Out-of-town customers write to:
Publications Ontario Mail Order Service
880 Bay Street, 5th Floor,
Toronto, Ontario M7A 1N8
Telephone (416) 326-5300
Toll free long distance 1-800-668-9938

*Ce rapport est aussi disponible en français.*

Printed by the Queen's Printer for Ontario.

OPSEU
SEFPO

92-05833/

# TABLE OF CONTENTS

Preface ..... i

Advisory Committee Members ..... ii

Executive Summary ..... iii

Chapter I: Background and Rationale ..... 1

1. From Wealth Extraction to Wealth Creation ..... 1
2. Making Wealth-Creating Investments in Our Economy ..... 3
3. Lessons From Our Global Competitors ..... 6
4. Ontarians Can Invest In Their Own Economy ..... 7

Chapter II: The Ontario Investment Fund: A Proposal ..... 11

1. Objectives and Mandate ..... 11
2. A New Financial Intermediary at Arm's Length from Government ..... 12
3. A Focused Investment Strategy ..... 13

Chapter III: Issues For Consultation ..... 14

1. Objectives and Mandate ..... 14
2. Organization and Governance ..... 14
3. Investment Policies ..... 16
4. Operating Style and Management ..... 17

Chapter IV: Next Steps: The Consultation Process ..... 18

Glossary ..... 19

# PREFACE

There is a shift underway in our economy. Not long ago, our economy was dominated by the resource and manufacturing sectors. But today, for a variety of reasons, the Ontario economy is becoming more diverse. A growing number of people are working in the service sector. Increasingly, jobs are being created in industries where a worker's knowledge is an important component of production. Technology, bio-engineering and other kinds of firms in leading-edge industries are experiencing rapid rates of growth.

These changes are altering the way we work and what we work at. The changes are forcing us to rethink the ways we support our businesses and industry – how we encourage business to locate here; how we create and attract the kinds of jobs that will enhance our standard of living; how we ensure innovative firms will have the capital they need to grow, modernize and create jobs in an increasingly global and competitive environment.

The Ontario Investment Fund is part of the Province's effort to ensure our economy is equipped to meet the challenges of a new marketplace. Specifically, the Fund will help provide much needed investment capital to those businesses that will become increasingly important to us in the days ahead – businesses in the high technology fields, or in the more innovative and knowledge-based types of production.

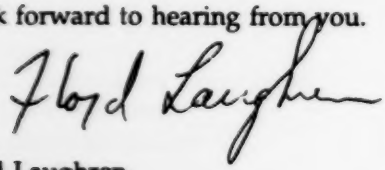
The Fund would provide capital for longer-term investments that, over time, would yield competitive returns to those who contributed the investment capital.

Participation in the Fund will be voluntary. And the key elements of its composition – what kinds of investments it will make, how these investments are made and so forth – are all up for discussion. That is the purpose of this paper.

The Fund will represent an opportunity for a new partnership among labour, the private sector, pension funds, the financial industry and government. The co-operative model we have developed for consultations is important, because the only way to succeed is with the direct participation of those most knowledgeable and interested in the Fund's development.

This discussion paper is just a starting point. I encourage you to participate in designing the Fund by submitting your thoughts, opinions and concerns about the proposal. You'll find our address at the end of this paper.

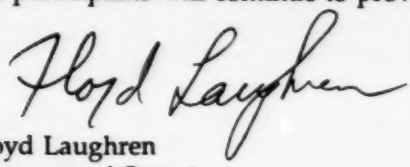
I look forward to hearing from you.



Floyd Laughren
Treasurer of Ontario
April, 1992

## Treasurer's Preconsultation Advisory Committee

I would like to thank the following people for serving on my pre-consultation Advisory Committee for the Ontario Investment Fund project. The Committee was given the joint task of reviewing the discussion paper of the Ontario Investment Fund and assisting in the design of the consultation process. The Committee's work, energy, and commitment enormously enhanced our effort and their experience and knowledge was invaluable. I sincerely hope the participants will continue to provide advice as we move forward.



Floyd Laughren
Treasurer of Ontario
April 1992

## Advisory Committee Members

Robert Arn
President
INCONTEXT Corporation

Darcy Beggs
Senior Research Associate
Canadian Union of Public Employees

William R. C. Blundell
Former Chairman
General Electric Canada Inc.

Felix Chee
Treasurer
Ontario Hydro

Gordon Cheesbrough
President
ScotiaMcLeod Inc.

Peter de Auer
Chair, Government Committee
Pension Investment
Association of Canada
Director, Pension Fund
Ontario Hydro

Sym Gill
Director
Pension Benefits Division
C.A.W., Canada

William Knight
Vice President, Government Affairs
Credit Union Central of Canada

Heather Gavin
Co-ordinator
Membership Benefit Department
Ontario Public Service Employees Union

Mary T. Linton
Asset Management Consultant
William M. Mercer Co.

Mary Macdonald
Mary Macdonald & Associates

Ron Poste
President
Ontario Teachers Federation

Deanna Rosenswig
Senior Vice President
Bank of Montreal

Gordon Sharwood
President
Sharwood & Co.

Robert L. Sillcox
Senior Vice President
Investment Division, OMERS

# EXECUTIVE SUMMARY

## Ontarians Need to Invest in Their Future

The Ontario economy is changing. Once agricultural, it is now shifting from a resource and manufacturing base to a service base. Technology, bio-engineering, communications and other leading-edge industries are the economic sectors where the Ontario economy is growing rapidly. These are the sectors that will assure our province's economic health in the future.

Traditional industries also need support so that they can adapt to the times and contribute to a healthy economy.

As a province how do we support traditional, leading-edge and emerging industries? How do we attract innovative new businesses? How do we ensure that they will have the capital they need to grow?

One way is to develop new sources of long-term capital that can be invested in industries that are adapting to the new economy or are being created by it. The need for capital that is patient enough and prudent enough to invest in long-term economic development will increase as economic change accelerates.

We need stronger, more direct links between this kind of investor and the industries that will form the basis for our future economic health.

## The Ontario Investment Fund

The Ontario Investment Fund proposal is part of the Ontario Government's efforts to see that our economy is equipped to move forward by providing the long-term, patient capital needed to support innovative, high-productivity companies. It will act as a financial intermediary, at arm's length from the government, between these important industries and long-term capital.

Specifically, it will:

- solicit long-term investment capital – up to $2 billion to invest over five to seven years – on a voluntary basis, from institutional investors, including pension funds;
- seek investments that earn market, risk-adjusted rates of return;
- make long-term investments and provide access to management assistance to help Ontario-based firms, sectors, and the economy as a whole shift to higher value-added production;
- develop partnerships and networks – informational and cooperative links – among suppliers and users of capital, research institutions and government, including more effective integration with government programs;

- sponsor the development of expertise in the assessment and management of new types of investments; and

- make investments which are economically and environmentally sustainable.

## Pension Funds: Their Role

Pension funds exist first and foremost to provide pension plan members with income security upon retirement.

That income security is assured by pension funds being wisely invested on behalf of members so that their pension contributions appreciate in value over time. In this way – as investments – pension funds also play an important role in our economy. They are a key source of capital for the private sector.

Pension plan members have a stake in the Ontario economy. The more modern and productive our economy, the likelier it is that pension plans will be well-funded.

One way that pension plan members can influence the direction that our economy takes is by prudently and conservatively investing a modest part of their pension funds in Ontario companies that will create the high-technology, high value added industry our economy needs in order to flourish.

The Ontario Investment Fund is an opportunity for pension plan members, through their pension plan investments, to help ensure that the Ontario economy is strong enough to meet the challenges that a global economy poses.

Investments in the Ontario Investment Fund would be strictly voluntary. The government recognizes the need and the right for pension plan members, through their plans, to be comfortable with the way that their all-important retirement income is invested.

## Issues for Consultation

The government will undertake extensive consultations on the Ontario Investment Fund proposal. The goal of the consultations will be to seek advice on the most effective program design for the Fund.

The proposal in this discussion paper is intended to form the basis for consultations, providing a framework for all stakeholders to offer advice.

All key elements of the proposal are up for discussion – including the objectives, mandate, organization and governance, investment policies and other matters relating to-the-day to day operations of the Fund.

Consultations are expected to begin in April shortly after the release of this paper. The process will comprise a series of discussions and consultations, ensuring that the Fund is well-designed and has the support of those it serves. We want to hear from those directly affected by the initiative – unions, pension fund trustees, sponsors and managers, the business community, members of the financial community and others.

# CHAPTER I: BACKGROUND AND RATIONALE

## 1. From Wealth Extraction to Wealth Creation

Ontario has for many years had one of the highest standards of living in the world. That prosperity is now threatened by global market competition and technological change. International trade has increased across a range of goods and services in which Ontario firms have traditionally been strong: resource products, consumer technology goods like automobiles and high-technology products such as electronics and aircraft. Consumers want new goods, more choices and better quality. Businesses and workers all over the world are adapting to meet these demands.

Ontario firms too are responding by introducing new technologies, new methods and new products. We are in the midst of a long-term transition from an economy built on resource-based manufacturing to a more diversified economy, with wealth increasingly created in knowledge-based industries and services. Since 1983, Ontario's job growth has been fastest in highly-paid, knowledge-intensive occupations.[1]

But we are not adapting quickly enough, as shown by long-term trends in unemployment, earnings and profits.

Between 1946 and 1965, unemployment in Ontario averaged 3.2 per cent a year. In the 1970s, the figure rose to 6.0 per cent a year.[2] Between 1981 and 1990, average annual unemployment was 7.3 per cent. In no single year during the 1970s and 1980s did Ontario unemployment fall to the normal rate of the earlier post-war period.

Our standard of living is not growing as fast as it used to. In the 1960s, personal income per capita in real terms – that is, adjusted for inflation – grew by an average 4.5 per cent a year in Ontario. In the 1970s, the average yearly growth in personal income slowed to 3.5 per cent. Since 1981, real income has risen by only 2.4 per cent a year. Even with more two-income families, our standard of living is stagnant because real earnings are not growing. In real terms, income from the average full-time job in Ontario was the same in 1989 as in 1980.[3]

Profitability has also been on a long-term downward trend. In the 1970s, the average return on equity for Canadian non-financial companies was 11.2 per cent, with a peak of 14.7 per cent in 1979. In the 1980s, return on equity averaged 9 per cent, with a peak of 11.3 per cent. Canadian firms are becoming less profitable.

The 1991-1992 recession has exacerbated the impact of structural change. Unemployment in Ontario reached a high of 10.2 per cent in June, 1991. Ontario accounts for 39 per cent of Canadian employment but suffered 69 per cent of the jobs lost due to the recession. A key

---

1 Ministry of Treasury and Economics, *Ontario Economic Outlook: Meeting the Challenges*, December 1991, pp. 9-10.

2 Labour force data up to 1965 is for population 14 years old and over. Data since 1965 is for age 15 and over.

3 *Ontario Economic Outlook: Meeting the Challenges*, p. 12.

difference between the recent and earlier recessions has been higher job losses due to plant closures.[4]

If we are to reverse these trends and prosper in the global marketplace of the 21st century, Ontario firms must strive for higher value-added production. Value-added is the difference between a firm's total sales and the cost of raw materials and inputs it purchases from other firms. This difference represents the return to labour and capital employed in the firm. It consists of wages and salaries, profits and depreciation. We add value when we use our design, manufacturing and marketing skills to turn raw materials into products that people want. The higher the value-added by a firm, the higher will be the returns in wages and profits. The higher the value-added by our whole economy, the higher our standard of living.[5]

Ontario's strategy is to actively support the shift to higher value-added activities, both across the economy and within firms – so that both wages and profits can rise. The goal is sustainable prosperity: high levels of employment in well-paying, high-quality jobs.[6]

One of the keys to achieving higher value-added is strong productivity growth. Productivity is a measure of the efficiency with which labour and capital are used to make goods and services. If a firm invests in new technologies and in training its employees to use those technologies, it can increase output per unit of input. For example, a company might be able to build more or better cars with the same amount of labour. Productivity can be improved by building new plant and equipment, by introducing new technologies and new production methods such as just-in-time inventory control and by improving the skills of workers and managers.

Relative to other countries, Ontario's productivity performance has been poor. Between 1979 and 1989, Ontario's labour productivity grew by an average annual rate of 2.1 per cent, considerably lower than the average for the G7 countries.[7] Canada also lagged in total factor productivity.[8]

One reason for our poor productivity performance has been the low level of investment in machinery and equipment. While total investment has been strong, we trail other countries in the kind of long-term investment that is directly tied to productivity improvements. Between 1980 and 1989, Canada's investment in machinery and equipment as a percentage of GDP was the lowest of the G7 countries.[9]

---

4 *Ontario Economic Outlook*, pp. 15-16.

5 The Premier's Council. *Competing in the Global Economy, Vol 1, 1987 provides a valuable discussion of value-added production in Ontario industries.*

6 Ministry of Treasury and Economics, "Budget Paper E", *1991 Ontario Budget.*

7 *Ontario Economic Outlook: Meeting the Challenges*, page 61.

8 "Total Factor Productivity", *Organization for Economic Co-operation and Development Economic Studies*, No. 10, Spring 1988, pp. 7-56.

9 Canadian Labour Market and Productivity Centre, *Quarterly Labour Market & Productivity Review*, Fall 1991, p. 23. G7 M&E investment as a proportion of GDP, 1980-1989, is as follows: Japan: 10.5; Italy: 10.2; France: 8.6; Germany: 8.4; UK: 8.2; US: 7.9; Canada: 7.4.

More important, total investment figures do not capture investment in the soft assets – systems and software development, training, changes in organization and production techniques – which are characteristic of advanced production methods. We have been slower than others in adopting these new methods. During the 1980s, Canadian private sector investment in R&D and worker training was among the lowest of the G7 countries.[10]

Long-term investment is essential to strong productivity growth. Part of Ontario's industrial strategy is to work collectively to improve our productivity, in part through encouraging long-term investment. The goal is not simply to increase investment, but to focus on the kinds of investments which are more likely to improve our productivity into the next century.

## 2. Making Wealth-Creating Investments in Our Economy

Companies need long-term financing to make the changes and improvements to their assets that can increase their ability to add value. Long-term, wealth-creating investments carry high risks and offer high return opportunities. But long-term investment is more than a matter of financing.

First, long-term, wealth-creating investments mean that investors expect to leave their money with the company for a significant period, ranging from three to ten years or more. These investments are often relatively illiquid – they cannot be sold easily.

Second, wealth-creating investments are typically bets on the company as a whole. The capital is invested in or loaned on an unsecured basis; the investor does not have a claim on a particular asset, such as equipment. Instead, the investor is concerned for the overall long-term growth of the company. This commitment often requires the active involvement of the investor to help the company succeed. Responsible long-term investors can bring financial, technical and marketing expertise and market access to the company.

Third, wealth-creating investments often involve equity or investor participation. By owning a share of the company, the investor can profit from the capital gains as the company grows. In exchange for this ownership claim, the company is under less immediate pressure to pay dividends or interest and can devote all of its energy to growth.[11]

Ontario firms are responding to structural change by introducing new technologies and techniques, but research suggests that many have difficulty financing the long-term investment they need.

---

10 Porter, Michael E., *Canada at the Crossroads: The Reality of a New Competitive Environment*, Business Council on National Issues and Ministry of Supply and Services, Canada, p. 8.

11 For a broad definition of risk capital, see *Venture Capital in Canada*, Association of Canadian Venture Capital Companies, 1991, p. 5.

Firms in both traditional and technology-based[12] sectors can have problems financing the soft asset investments which are central to new high productivity and flexible production methods.[13] There are two reasons for this. First, for many firms, the lack of management depth in certain areas – finance, R&D, international trade, or implementing new production techniques – is a critical constraint.[14] When investors lack confidence in managers, they are reluctant to back them:

> Since Canada has fewer technology companies and fewer successful growth companies than the U.S., the pool of experienced management talent available to emerging Canadian technology companies is dramatically smaller...Given that Canadian management teams were less experienced...their venture capital backers were more likely to discount the new company's projections than their U.S. counterparts.[15]

Second, Canadian investors are still gaining experience in the assessment and management of newer, technology-based investment opportunities. A Canadian Chamber of Commerce study notes:

> Canada is moving towards a more complex economy where system and software development, application of technology, as well as personnel training require greater amounts of capital than at any time in the past. The transition to the new economy is somewhat at odds with Canada's traditional investor culture, which has been nurtured on capital intensive resource-based projects.[16]

Many threshold firms with capital problems have adequate cash flow to service additional debt but need investments in soft assets which cannot be used as collateral.[17] The conventional approach is to treat soft assets as costs rather than investment.[18]

Because many Canadian investors have little experience with these investments, they cannot offer the kind of outside management expertise or upgrading that might make the investments viable. The shortage of investors able to help emerging technology companies is an impediment

---

12 A technology-based company is a firm engaged in the development, marketing, and/or delivery of a technologically advanced product or service.

13 Flexible production describes a set of methods which are replacing traditional mass production in advanced economies. Instead of long production runs using special machinery and semi-skilled labour, the new approach stresses adjustable runs of customized products using flexible equipment and multi skilled labour. Productivity is improved through lowering defect rates, controlling stocks, and improving skill levels rather than only through large fixed investments. Markets are won through offering quality and choice rather than the lowest price.

14 Ernst & Young, *Design for a Program to Provide Risk Capital to Emerging Threshold Industries*, A Report to the Ontario Development Corporation, November 1989, p. 1.

15 *Creating Threshold Technology Companies in Canada: The Role for Venture Capital*, p. 33

16 The Canadian Chamber of Commerce, *Focus 2000: Report of the Task Force on Making Investment Capital Available*, August 1988, p. (vi).

17 *Design for a Program to Provide Risk Capital to Emerging Threshold Industries*, p. 1.

18 *Focus 2000*, p. 15. As has been noted, this is one reason why ordinary measures of investment do not capture what is occurring in the area of soft assets.

to Ontario firms attaining world stature.[19] Especially for certain sizes of firms – smaller and threshold firms – capital should be part of a strategic package of advisory management services.

For mature companies with sales in established lines, internal cash flow, public offerings and private placements can more readily provide the capital needed for expansion. For other firms, these options are often not available. Michael Porter found that "Difficulties in obtaining capital appear to have limited the growth and upgrading of some small and medium-sized firms, particularly in the technology and knowledge-intensive industries."[20]

The problem faced by these threshold[21] firms is highlighted by the fact that a number of them have been taken over by international competitors when they have sought foreign capital to obtain the long-term investments they need. When this happens, opportunities to nurture strong, Ontario-based, internationally competitive firms are reduced.

Another study notes that "The growth of small companies into medium or large corporations may be choked off at the mid-sized level because of a lack of funds both in the equity and quasi-equity or mezzanine-financing area."[22] This helps explain why Canada's mid-sized sector has stopped growing compared to other countries.[23] Mid-sized firms are important because it is from their ranks that large corporations will emerge. Also, as production methods change, medium-sized firms are becoming more important in national and international markets.[24]

Some firms have difficulties securing long-term investment financing because Canadian capital markets are still developing to respond to changing investment requirements. For example, the base of capital committed for investments by the venture capital community in Canada grew from about $400 million at the beginning of 1980 to more than $2.5 billion by the end of 1988.[25] Despite this impressive growth, the Canadian venture capital market still appears to lack depth and breadth relative to our economic needs. A recent study showed that Canadian early-stage, knowledge-based technology companies are underfunded compared to their American counterparts mainly because there are fewer investors per project.[26]

---

19 *Creating Threshold Technology Companies in Canada*, p. 44.

20 *Canada at the Crossroads*, p. 51.

21 Threshold firms are firms which have had some success in new markets and have the potential to become world competitors. *Competing in the Global Economy*, Report of the Premier's Council, Vol I. p. 153.

22 *Focus 2000*, p. (vii).

23 *At the Threshold: Canada's Medium-Sized Businesses Prepare for the Global Marketplace of the 1990s*, Sharwood and Company, pp. 10-11.

24 Ibid. The trend towards smaller units is affecting even huge corporations like IBM and General Motors ("Corporate Dinosaurs Leaving Some Fossils Behind", *The Globe and Mail Report on Business*, December 23, 1991, p. 1).

25 *Venture Capital In Canada*, p. 10.

26 Macdonald, Mary, *Creating Threshold Technology Companies in Canada: The Role for Venture Capital*, Science Council of Canada, 1991, p. 41

A further impediment to long-term investment in Ontario is that business networks in the Ontario economy are still developing. Networks are informational and co-operative links among firms, between the private sector and research centres and between business and government. Networks are characteristic of high-growth, high value-added economies. A recent study by the Organization for Economic Co-operation and Development (OECD) found innovative countries to have industrial structures that combined opportunities for intense competition with mechanisms for firms to share the financing and diffusion of scientific research.[27]

Networks also help explain the competitive advantages generated by industrial clusters. In clusters, long-term co-operative relationships are typically developed among suppliers, customers and other firms.[28] Firms take advantage of external economies and efficiencies that exist within such clusters of interlinked firms.[29] Firms benefit because information flows freely among them.

An example of networking would be support by a large computer firm for the development of a new product by a smaller software or component company. The support might come in the form of a commitment to buy the smaller firm's products or as financing. With this support, the smaller company would then be able to approach other investors with a familiarity with the industry.

A further barrier to long-term investment in Ontario firms is the lack of an overall strategy or vision for government industrial development programs. Currently, government programs could be more effectively coordinated with each other and with private sector activities. To this end, the Government is developing a more strategic approach to industrial growth by bringing greater logic and effectiveness to industrial policies, and by implementing strategies, jointly determined by the private and public sector, to strengthen sectors and firms in Ontario.

Ontario's shift to a higher value-added economy will be hampered unless we address these structural impediments to the quality and quantity of investment. The issue is not simply a lack of access to capital. The problem is that long-term capital is not sufficiently available in the right form – as part of a package of services and expertise.

## 3. Lessons From Our Global Competitors

Ontario is not alone in seeking innovative ways to address the long-term investment requirements of our economy. A number of our competitors have found ways to support long-

---

27 "Innovation: The Machinery of Growth", *The Economist*, January 11, 1992, p. 19.

28 Murray, Robin, *Flexible Specialisation and Development Banking in Jamaica*, Institute of Development Studies, University of Sussex, February 1991, p. 11.

29 A cluster is a group of interdependent industries that are related to each other through buyer-supplier linkages or through reliance on shared skills and common technology. Clusters tend to be geographically concentrated. The notion of clusters appears to have been first developed by economists examining post-war industrial development in Italy; for example: Brusco, S., "The Emilian model: Productive Decentralization and Social Integration," *Cambridge Journal of Economics*, Vol. 6 (1982), pp. 167-184. The idea has been popularized by Michael Porter: "The Competitive Advantage of Nations", *Harvard Business Review*, March-April 1990, pp. 73-93.

term investment together with the delivery of strategic services, often through private sector-public sector partnerships.

In Europe, small and medium-sized firms overcome the problem of lack of access to finance-based strategic services by acting co-operatively to set up networks, often with the help of local banks. Groups of firms in Europe also co-operate to share the overhead and information costs of developing new international markets.

Government can also play a role. The Industrial Bank of Japan (IBJ) was set up by the Government of Japan to deliver a range of services to business, including loans, bond issues, securities trading, investment management, financing and consulting services. Another institution, the state-owned Japan Development Bank, augments private sector financing by making long-term loans, providing liability guarantees and offering project capitalization.

In Germany, the German Industrial Bank specializes in medium-and long-term financing to all branches of industry, trade and the service sector. The Bank is funded by private sector loans with terms of up to fifteen years. The publicly-owned German Reconstruction Loan Corporation provides loans and loan guarantees for capital investments and exports.

The International Financial Corporation, the private sector development affiliate of the World Bank, provides equity finance and management and technological expertise to firms in developing countries. It has succeeded in achieving high rates of return, even with the costly overhead of providing active managerial advice.

The Government of Quebec has attempted to stimulate investment in the industrial development of the province through the Caisse de Dépôt et placement du Quebec, which manages public pension and insurance plan funds. About five per cent of the Caisse's total assets are used to pursue a wide range of economic development objectives.

These structures were created to respond to the particular circumstances of the various jurisdictions. They could not simply be transplanted to Ontario. But they teach a fundamental lesson: co-operation and partnership between the private sector and government can work to facilitate long-term investment.

## 4. Ontarians Can Invest In Their Own Economy

Successfully shifting to a higher value-added economy will require that Ontarians and their institutions act collectively to invest in the long-term future of their economy. How can they do that? One way is through their pension funds.

Public and private pension funds are a major and growing source of capital in Canada. Among Canada's largest funds are Ontario's six major public pension plans.[30] In 1990 they had gross assets of $51.3 billion and an annual investable net cash flow of almost $5.5 billion.[31]

Peter Drucker has identified the new power of pension funds as one of the most important management issues for the economy of the future.[32] In the United States, pension funds may hold fully two-thirds of the equity capital of all United States business by the year 2000.[33] As one study noted, "the growing role and impact of pension funds in our economy means fund decisions affect beneficiaries in many ways other than by directly providing pension benefits."[34]

Pension funds can affect our success in shifting to higher value-added products, in increasing our competitiveness. Pension fund members have a direct stake in this shift – for several reasons.

First, both private and public sector pension fund members have a stake in the country's economic health because most of their assets are invested here. If the economy does not grow, neither will pension fund assets. Returns on pension fund investments directly affect contributions. Strong economic performance can lower the contributions that will have to be made – by both members and employers. As we move more towards jointly trusteed funds, in which employees and employers share both risks and rewards, economic performance is all the more important.

And a strong economy provides more investment opportunities for pension funds. Without new and growing companies to invest in, pension funds will merely bid up the price of existing assets. Pension funds already hold an estimated 30 to 37 per cent of the companies listed on the Toronto Stock Exchange 300, net of controlled blocks.[35]

Jobs are the second reason that pension fund members have an interest in investing in our economy. If Ontario does not successfully restructure to meet global competition, members risk losing jobs. Public sector jobs are as much at risk as private sector jobs because a stagnant economy means lower tax revenues. That translates into less hiring by governments, municipalities, hospitals, universities, school boards and other publicly-funded organizations.

Third, over the longer term, failure to increase our wealth-creating capacity will make it more difficult for the economy to meet future pension obligations. As many commentators have

---

30 The Teachers' Pension Plan, the Ontario Municipal Employees Retirement System, the Public Service Pension Plan, the Hospitals of Ontario Pension Plan, the Ontario Hydro Pension Fund, and the Colleges of Applied Arts and Technology Pension.

31 Gross Assets from *Benefits Canada* (April 1991) and Investable net cash flow estimated by Ministry of Treasury and Economics.

32 Drucker, Peter, "Management and the World's Work," *Harvard Business Review*, Sept.-Oct., 1988.

33 "Who Runs Your Company Anyway?", *Fortune*, Sept. 12, 1988.

34 *Our Money's Worth*, Report of the Governor's Task Force on Pension Fund Investment, New York, June 1989, p. 14.

35 Canada Consulting Group, unpublished analysis, 1989.

noted, the combination of the aging of the baby boom generation, lengthening life spans and falling birth rates will make maintaining future pension benefits difficult without a much more productive economy.[36]

Apart from the broader impacts of their activities on the economy, pension fund managers have an interest in longer term, wealth-creating investments to properly balance the risks inherent in pension plans. Pension fund investments are driven by the structure of their liabilities – the payment of future pensions to beneficiaries – most of which are long-term. Pension fund managers seek an asset mix that matches their liability structure.

A recent article argues:

> . . . Any well-governed pension fund will have a high quality debt component, with its size and term structure determined by near term pension obligations. It will have a diversified claim on future goods and services' component by holding a mix of longer term marketable and private debt and equity investments. Through this second fund component, fund fiduciaries, their investment managers and their corporate board representatives must encourage the managements of investee firms to create wealth for their shareholders. By the same token, they must question and even oppose corporate actions not likely to advance long term wealth creation goals. Clearly, there is also room in larger pension funds to make worthy small company investments and to even finance new ventures as part of such a wealth-creating investment policy.[37]

About three quarters of Canadian pension fund assets are currently in government guaranteed bonds and blue-chip Canadian stocks. Ten per cent of assets are in cash and other low-risk, low-return, short-term instruments. Canadian pension funds invest in some higher risk, higher return investments, such as real estate and oil rights.

As pension funds grow, they are better able to manage the higher risk and relative illiquidity of long-term investments. Some funds do invest in private placements to small and mid-sized companies, venture capital funds and other long-term investments. In Ontario, large public sector pension plans – the Ontario Municipal Employees Retirement System, the Hospitals of Ontario Pension Plan and the Ontario Hydro Pension Fund – have participated in the financing of venture capital and small and medium-sized businesses. The Teachers' Pension Plan has recently entered the field, following a change in the legislation governing its investments.

Because of the nature of their liabilities, pension funds will keep most of their assets in lower risk, lower return investments. However, given viable opportunities, Canadian pension funds could prudently make a somewhat greater number of higher risk, higher return investments.

---

36 For example, "Age War in 2011: A Special Report", *Benefits and Pension Monitor*, November-December, 1991.

37 Ambachtsheer, Keith. "Transforming Pension Funds from Cookie Jars to Cornucopia", *Canadian Investment Review*, Vol IV, No. 2, Fall 1991, page 7.

Pension funds in the United States are increasingly making long-term, economically-targeted investments and experimenting with pension fund consortia to help distribute risks and lower transactions costs.[38]

Developing ways for pension funds and other institutional investors to make such investments in Ontario would increase opportunities for the funds, provide them with a new capability to assess and manage these investments and open up a new source of funding for firms – a win-win solution for Ontario.

---

38 See, for example, *Competitive Plus: Economically Targeted Investments by Pension Funds*, New York State Industrial Cooperation Council, 1990.

# CHAPTER II: THE ONTARIO INVESTMENT FUND: A PROPOSAL

The Ontario Investment Fund will be a dynamic new participant that helps link long-term capital with new investment opportunities. It will be a catalyst to help speed the flow of private capital to these opportunities. The Fund will itself add value by developing management and financial expertise and by reducing the risk and transaction costs of making long-term investments. This will be particularly valuable to smaller pension funds and institutional investors which do not have the in-house capability to evaluate private placement investment opportunities of a higher risk, higher return nature.

## 1. Objectives and Mandate

### Objectives:

i To make long-term private sector investments that increase value-added in both emerging and traditional industries.

ii To create a new financial intermediary that can foster deeper links between capital markets and businesses in need of long-term capital.

A financial commitment would be sought from the major public sector funds, as founding members of the Fund. Whether to invest or not would be up to the trustees of each fund. It is not proposed that public pension funds be obliged to invest in the Fund, along the lines of the Caisse de Dépôt in Quebec.

The Fund would try to attract private pensions and other institutional investors – to provide them with the opportunity to participate in Ontario's emerging sectors with less risk and at lower cost than they could on their own. Equally important, it would seek corporate co-investors to participate in industry-specific investments.

A target size for the Fund of up to $2 billion to be invested over five to seven years is large enough to have an economic impact and provides sufficient long-term capital commitments to establish momentum. If the Fund invested $2 billion over seven years, this would be roughly equivalent to one per cent of Ontario's annual investment in machinery, equipment and non-residential construction.

The rate at which the Fund will be drawn down will depend on the quality of investment opportunities. In the initial years, Fund managers will still be gaining experience in finding and assessing these opportunities. If new opportunities arise, the Fund may grow. Procedures for enabling investors to exit the Fund will be developed.

**Mandate:**

i To seek long-term investments that earn competitive, risk-adjusted **market rates of return**. Expected rates of return will be higher than blue chip stocks and bonds, to match the higher risk nature of the investments. By pooling the risk, the Fund should offer a safer vehicle for institutional investors to make investments with high expected rates of return and high risk.

ii To **prudently manage financial assets** in a properly balanced portfolio.

iii To **sponsor the development of expertise** in the assessment and management of new types of investments.

iv To **provide access to managerial and technical advice**, strengthen strategic planning and help bring more sophisticated financial planning to firms and industries. The provision of such services will entail costs; the Fund will be structured so that these costs can be met. By providing these services on a pooled basis, the Fund will reduce the cost and enhance the fiduciary investor responsibilities of Fund participants.

v To **support business networks**, develop partnerships and help establish institutional linkages among users and suppliers of long-term capital, including other public and private sector economic development programs.

vi To make investments which are **economically and environmentally sustainable**. The Fund will not invest in bail-outs.

vii To bring companies in which the Fund invests to the public equity market within ten years. **A divestment strategy** is critical, both as a market test for Fund investments and to the long-term success of the Fund in recycling capital to other investments.

## 2. A New Financial Intermediary at Arm's Length from Government

The Fund could be designed to operate at arm's length from the government. As an independent institution, the Fund will be able to meet the broad range of requirements that pension funds and other institutional investors have for allocating capital, but in a way that facilitates co-operation between the private and public sector.

The Fund's legal organization and structure must provide for safe return of principal and a measure of investor control, consistent with other investment opportunities having similar risk-reward characteristics. It must meet standard financial requirements commonly associated with pension fund investment activity, including clear and specific fiduciary responsibilities undertaken by pension fund officials. (Similar measures would be necessary to induce the participation of financial institutions other than pension funds.)

## 3. A Focused Investment Strategy

The Fund will focus on investments consistent with Ontario's economic strategy of shifting to higher value-added activities.

The Fund will identify opportunities for long-term investment in both emerging and traditional industries. It will seek opportunities in soft assets and threshold companies. The Fund could encourage particular sectors or clusters. It will promote and finance individual firms within key sectors and clusters. It could also play a financial role at the industry or cluster level. For example, all firms in a certain cluster might face a similar financing problem. The Fund might help in the development of an industry revolving fund, or by offering to guarantee a portion on a pooled basis, allowing commercial banks to offer loans at a lower rate or on a more regular basis.

The Fund will also support industry-wide initiatives that lower the risk for producers and suppliers in industrial sectors or clusters and enhance their chances for gaining competitive advantage.

# CHAPTER III: ISSUES FOR CONSULTATION

The Government will undertake extensive consultations on the Ontario Investment Fund proposal. The goal of the consultations will be to seek advice on the most effective program design for the Fund.

The proposal in this discussion paper is intended to form the basis for consultations, providing a framework for all stakeholders to offer advice and suggest alternative approaches. The consultations will help determine the final design of the Fund. The consultation process will be open and democratic, a true partnership and co-operative venture of the financial community, the private sector, pension funds and contributors, labour and government.

Central to the consultation process is that all key elements of the Fund's composition are up for discussion. The consultations will help establish the groundwork for entering into negotiations with those parties interested in participating in the Fund.

Stakeholders are encouraged to provide their ideas and suggestions on the specifics of the proposal, including mandate, objectives, investment and divestment policies, organization and operation, and funding issues.

The consultations are expected to begin in April, shortly after release of this paper. The process will comprise a series of discussions and consultations, ensuring that the Fund is well designed and has the support of those it serves. We want to hear from those directly affected by the initiative – unions, pension fund trustees, sponsors and managers, the business community, members of the financial community and others. We welcome your views and advice.

The purpose of this chapter is to elicit suggestions on the proposed mandate, objectives, organization and operation of the Ontario Investment Fund. Below, we outline some of the key issues and options. These are not exhaustive; there may well be others.

## 1. Objectives and Mandate

**What should be the objectives and mandate of the Fund?**

The proposed objectives and mandate, set out in Chapter II, will guide the operation of the Fund. They may need to be modified to give better direction and a sharper focus.

## 2. Organization and Governance

**How should the Fund be organized? How should capital be committed? Who should have ultimate authority for investment decisions?**

As proposed, the Fund will operate as a stand alone entity at arm's length from the government and with professional management. Within these constraints, there are various organizational

options. Below, two options are set out to create discussion. They are not the only possible options.

The Fund could be organized like a development finance corporation, with shares held by the Ontario Government, pension funds and possibly other investors. The Government could issue shares to investors, or it could create them as charter members in enabling legislation.

In this model, capital would be committed as share capital. The Fund could later consider other ways of attracting capital, as an investment or merchant bank does. Ultimate authority for investment decisions would lie with the board of directors, representing the shareholders.

An alternative option would be a fund in which pension funds and others would buy interests, rather like a mutual fund. The Fund could create a corporation which would then establish sub-funds. The sub-funds would specialize in certain areas, such as certain industries or clusters, or certain asset classes (such as threshold firms).

Capital would be committed as investors buy interests in the sub-funds. The management of the sub-funds might be provided through the use of consultants with special expertise.

### What should be the role and composition of the Board of Directors?

Whatever form the Fund takes, there should be representation, one way or the other, from the pension funds, the financial community, the broader private sector, labour and government. In representing all key stakeholders, the Fund will be set up according to principles of joint trusteeship – an idea which the government embraces. The goal is to share expertise.

The board of directors could represent all stakeholders around a core of investor interests.

Alternatively, there could be a smaller board, with a policy advisory committee of key stakeholders and an investment advisory committee of investors. Consideration might also be given to a board structure that includes some positions in regular rotation as well as permanent positions.

### What is the appropriate role for the Government in the Fund?

Government could participate in setting policy for the Fund at the start and then withdraw to a less active role. Alternatively, the Government could be an active participant on the Board of Directors. We should also consider whether the Government should provide capital as a founding member, or whether Government will only provide staff, space and advice to the Fund. It must also be decided whether the Fund can best function as a private or a Crown corporation.

## 3. Investment Policies

Investments would be screened in two distinct steps to meet two fundamental sets of criteria: first, on whether they meet certain overarching economic and environmental criteria; and second, against specific investment criteria.

### What should be the economic criteria for investments?

These might include potential for creating long-term economic development and higher value-added, as well as broader economic goals, such as employment gains, equity, worker participation, training and others.

The Fund would not invest in financing unsuited for long-term patient capital (direct working capital for an individual firm), seed capital, companies needing ongoing assistance, or real estate or commercial development.

### What should be the specific criteria for investments?

These would include: risk-adjusted market rates of return, acceptable due diligence and shared risks with other investors. Long-term investment analysis would be necessary to assess and price risks and to structure the investments appropriately.

Investment criteria could be further refined for specific asset classes. For example, prospective threshold firms might be required to meet the criteria of: stable or growing revenues and earnings; positive operating earnings (earnings before interest and taxes); experienced management with some direct financial stake in the company; a capability to provide a market rate of return on the investment; strategic growth opportunities within the industry; and sufficient financial sophistication and internal controls to manage new investment.

### What investment instruments should be used?

A variety of financial instruments would let the Fund diversify risk and structure investments to suit individual situations. We therefore propose flexible financing arrangements, with a range of instruments, such as private placements of equity, debt with equity features, senior and subordinated debt with use of covenants and percentage guarantees to support private investor participation and industry-wide instruments.

### What should be the scale of individual investments?

Once the concept of the Fund is more fully developed, the scale of individual investments will need to be determined. Investment policy must also determine whether limits are placed on the percentage of equity that the Fund takes in any one company.

### What should be the divestment policy?

A well articulated divestment policy is essential because it provides a market-based test for investments and because it will enable the Fund to recycle investments.

## 4. Operating Style and Management

Implementing the Fund will involve making decisions about the operating style and the way in which the Fund will be managed. The Fund will need to develop an innovative style to achieve its investment, management advice and networking goals and to provide leadership in financing long-term investments.

### How should the Fund provide management and technical advice to firms?

The Fund might provide technical assistance to firms to help them understand capital market access and borrowing relationships beyond those available from the commercial banks. It could refer companies to other private and provincial agencies when the service needed cannot be supplied by the Fund.

### How should the Fund seek investment opportunities?

The Fund could develop and maintain a data base on Ontario small and mid-sized firms. It could itself promote industry and cluster networks which might provide investment opportunities and work with existing financial intermediaries.

### How should the Fund foster financial and management expertise?

For example, the Fund might second staff from the private sector for specific industry projects; set up international exchange programs; arrange internships and apprenticeship-style training programs for junior business and financial analysts; and establish business school links with industries to foster entrepreneurial expertise.

# CHAPTER IV: NEXT STEPS: THE CONSULTATION PROCESS

The Ontario Government is committed to setting up the Ontario Investment Fund as a co-operative venture of the financial community, the private sector, pension funds, labour and government. The discussion and opinions that this paper generates will determine the final design and implementation of the Fund.

The Government is in the process of setting up a formal consultation process which will include focus groups and seminars for stakeholders. Our aim is to involve all those directly affected by the Ontario Investment Fund and all others with views and advice.

Should you or your organization wish to offer views and suggestions on the proposed Fund at one of the focus groups or seminars; should you wish to submit written briefs; should you need more information about the consultation process or about the Fund; or should you want additional copies of this paper, please contact:

The Ontario Investment Fund Project
Ministry of Treasury and Economics
Communications Branch, Room 519
Toronto, Ontario
M7A 1Y7

Telephone: 1-416-325-0333

We invite and welcome your participation.

# GLOSSARY

**Arms-Length from the government.** Describes an institution which is in some manner responsible to the government but operates without direct government involvement. The degree of government responsibility can range from complete responsibility for Board appointments to a model of full co-determination by the government and other stakeholders.

**Assets.** Anything having commercial or exchange value that is owned by a business, institution or individual. Examples are land, machinery, buildings, patents, copyrights, oil and gas reserves and cash.

**(1) Hard Assets** are those which can be evaluated in monetary terms and are easily identifiable. Examples include machinery, equipment, land and buildings.

**(2) Soft Assets** are those which are more difficult (relative to hard assets) to assign a specific monetary value and are also less identifiable. Examples include human capital, intellectual property and trademarks.

**Bailout.** The provision of financial assistance to organizations which are facing bankruptcy.

**Board of Directors.** Group of individuals elected or appointed by owners or shareholders of a corporation and empowered to set and approve company policy, appoint senior executives and supervise the activities of the company and its senior officials. The board of directors does not usually have day-to-day involvement in companies.

**Bonds.** A form of financial obligation of a corporation or government. The issuer (borrower) usually promises to pay a specified amount of interest for a specified period of time and to repay the principal. There are many kinds of bonds depending on whether and how they are secured, who issues them, when they mature, how and when principal and interest are paid, the currency of payment, the purpose of their issue. etc. Bondholders' claim on the assets of the issuer in cases of bankruptcy takes precedence over those of stockholders.

**Buyer.** A person, organization, or legal entity which engages in a transaction for the purpose of acquiring goods, services or assets.

**Capital.** Three types: physical, financial and working capital.

**(1) Physical Capital** refers to assets that are used to produce goods and services, usually in conjunction with labour. Examples include machinery and equipment.

**(2) Financial Capital** refers to the funding provided by investors to a business. Examples include the funds raised through the issuing of stocks and bonds.

**(3) Working Capital** consists of a company's cash and other liquid assets (accounts receivable, inventory, etc.). Net working capital is the difference between the current assets and current liabilities of a firm.

**Cash Flow.** Refers to a company's net profits plus non-cash operating expenses such as depreciation.

**Collateral.** Assets pledged to a lender as a security until a loan is repaid. Examples include the buildings and machinery owned by a business.

**Competitive Rate of Return.** A return on investment which is comparable to the next best alternatives.

**Covenant.** A legal agreement; a contract. Refers to a promise to carry out or refrain from certain acts. Examples include any legal binding agreement such as a mortgage.

**Debenture.** A bond backed by the general credit of the issuer but not secured by a mortgage or a lien on a property. It normally has a stated maturity date and rate of interest. Debentures are a common kind of bond issued by large, well-established corporations. Examples include any unsecured bond issued by a corporation.

**Debt**. General term refers to money, goods, or services owed by one legal entity to another. Examples include bonds, mortgages and notes.

**Draw Down.** The withdrawal of funds from a source of financing.

**Due Diligence.** A legal concept requiring underwriters and fund managers to undertake adequate investment research and analysis.

**Early-Stage Companies.** Businesses that are in the initial stages of development. Early-stage companies are usually small and may not have any products or services available for sale to the public. Many small high-technology companies requiring a long gestation period would fall into the early-stage company category.

**Economic Development.** The advancement of society's material well-being.

**Equity.** Refers to money at risk invested by common shareholders or owners in a corporation.

**External Economy.** The benefits accruing to a business or individual due to the actions of another. For example, a successful research and development project by a firm may yield benefits to other firms. Likewise, a firm investing in its human resources to upgrade their skills could benefit other firms through the increased pool of trained and more productive workers.

**Fiduciary.** A term applying to a person who holds and manages assets in trust for another person, for example, the relationship between pension fund trustees and pension fund members. It is also used to refer to a transaction that is based on trust and confidence.

**Flexible Production.** Refers to a method of production that has been shown to be superior over traditional mass production methods in terms of rapid adjustment to changing demand conditions, higher productivity of workers, higher quality, quicker product development and better inventory management. Flexible production method was first fully-developed by Japanese automobile companies.

**Gross Domestic Production (GDP).** The total money value of goods and services produced over a particular period of time. Ontario's GDP in 1991 was $273.6 billion, or about 40 per cent of Canada's.

**Guarantee.** The assumption of responsibility by a third party for the obligations of another. An example is the co-signatory on a bank loan.

**High Technology.** A term used to describe the use of advanced technology in production. Examples of advanced technology includes computer-aided design, flexible manufacturing systems, local area electronic network and automated material handling systems.

**Interest.** In banking and finance, it is the price paid by the borrower for the temporary use of the lender's money.

**Internal Cash Flow.** The surplus of revenues over operating expenditures. A company can generate additional internal cash flow through savings achieved via operating efficiencies.

**Knowledge-Based Company.** A term used to describe a company that uses information intensively in its production process. Knowledge-based companies include those involved in software, biotechnology and telecommunications equipment.

**Liability.** Debts owed by a business or individual. Examples include a bank loan, mortgage and amounts owed to a supplier for the purchase of merchandise.

**Market Rate of Return.** The average return on investment which is used as a benchmark for gauging investment performance. The Toronto Stock Exchange computes rates of return for large portfolios of bonds and stocks that are widely accepted as market rates of return.

**Mezzanine Financing.** Financing provided to firms on the verge of going public. Such firms are relatively high risk but exhibit potential prospects of future profitability and growth.

**Network.** A term used to refer to the communicative interrelationships among people or organizations. Examples include the numerous associations formed to promote the common interests of various industry groups such as the auto parts manufacturers.

**Operating Earnings.** The surplus of operating revenues over operating costs.

**Organization for Economic Co-operation and Development (OECD).** A 24-member organization of industrial nations founded in 1961 to improve economic research and trade and investment flows among its members.

**Overhead.** A term which refers to all business expenditures other than direct labour (the wages paid to production workers) and direct materials. It includes all indirect labour costs (e.g. wages and salaries paid to supervisors, inspectors, etc.), rent, maintenance, interest, property tax, insurance, administrative salary, as well as fringe benefits paid to all employees.

**Pooled Fund.** An investment fund which consists of a number of independently administered subordinate funds.

**Portfolio.** The set of securities held by an investor or institution. For example, a typical pension fund portfolio would include bonds, a wide variety of stocks and real estate investments.

**Private Placement.** The raising of funds from a select group of investors as opposed to the general public. For example, a company may approach an insurance company or other institutional investors for investment funds instead of through the issuance of publicly-traded stocks or debentures.

**Profit.** The surplus of total revenues over total costs.

**Project Capitalization.** The initial equity investment in a project which may be a company. For example, if a group of individuals invest $10 million of their own money to set up a company and borrow $50 million from various banks, the new company would have a capitalization of $10 million.

**Public Offerings.** Presenting the public with an opportunity to purchase a company's financial securities. This is usually carried out with the assistance of an investment dealer.

**Quasi-Equity.** Financial instruments which combine some of the characteristics of debt and equity instruments. An example would be convertible debentures because they are a debt instrument (bond) which can be converted into an equity instrument (stock).

**Rate of Return.** The earnings on an investment expressed as a per cent of the total amount invested.

**Resource-Based Economy.** Economies that are dependent on natural resources for the extraction of wealth.

**Revenue (or income).** The total dollar amount of money earned by a business before expenses. Revenue less expenses is net revenue or net income.

**Revolving Fund.** Generally, a public economic development financing mechanism established with a government grant to provide loans to businesses. What makes it revolving is that as the loans and interest are repaid, new loans are made with these funds.

**Risk-Adjusted Rate of Return.** A measure of the profitability of an investments which takes into account the associated risk. For example, given two investments yielding the same rate of return, the investment with the lower risk would be considered the better investment on a risk-adjusted rate of return basis.

**Seed Capital.** Financing provided to start a company. Money that an individual, relatives of the individual or other investors put into starting a new company would be considered seed capital.

**Senior Debt.** Debt that has to be paid off before any other claims can be considered or declared.

**Stock (Shares).** Certificates issued which represent partial ownership of an incorporated business. Owners of stocks, often called shareholders, have certain privileges and rights depending on the type of stock possessed. For example, **common stock** holders are entitled to vote at its annual meetings and thus usually have most control over the business's activities. However, they are the last to claim the business's assets in the event of a liquidation. **Preferred stock** holders are entitled to a fixed dividend ahead of the company's common shareholders and to a stated dollar value per share in the event of liquidation. Generally they are not entitled to vote on corporate matters unless a stated number of dividends have been omitted.

**Subordinated Debt.** It is used to refer to a company's debt that can only be paid off after the senior and fully secured debt has been repaid.

**Supplier.** A person or a company that regularly engages in a transaction to sell its goods and services to another. Many businesses act as both a supplier and a seller.

**Technology-Based Company.** A company which depends critically on the application of advanced scientific methods to the production of goods and/or services. Examples of technology-based companies include those in the telecommunication, biotechnology and electronics sectors. However, even firms in traditional sectors must rely increasingly on technology to remain competitive.

**Threshold Company.** A term used to refer to a company that is already established and has the potential to become a successful global enterprise.

**Value Added.** Refers to the difference between a firm's total sales and the cost of raw materials and inputs it purchases from other firms.

**Wealth.** The sum of an individual's, firm's or nation's assets and marketable skills.